

**CITY OF LODI
INFORMAL INFORMATIONAL MEETING
"SHIRTSLEEVE" SESSION
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, MAY 2, 2006**

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, May 2, 2006, commencing at 7:00 a.m.

A. ROLL CALL

Present: Council Members – Beckman, Hansen, Johnson, Mounce, and Mayor Hitchcock

Absent: Council Members – None

Also Present: City Manager King, City Attorney Schwabauer, and City Clerk Blackston

B. TOPIC(S)

B-1 "Pension issues"

Janet Hamilton, Management Analyst, reported that pension plans were established in the early 20th century and were designed to help organizations retain employees and keep direct compensation and taxes lower. Originally, most pensions were defined benefit plans. In 1978, passage of the Revenue Act added section 401K, which allowed individuals to invest retirement savings. She noted that employer-sponsored plans typically have a team of professionals making the investments with significantly larger sums of money compared with individuals with far less purchasing power. Defined contribution plans are more mobile since they allow workers to take their pensions with them as they change jobs. The California Public Employees Retirement System (PERS) was established in 1931, and the City of Lodi began participating in 1966. In the late 1990s, the State Legislature enacted benefit enhancements for public sector employees. Lodi and many other agencies moved to 3% at 50 years for public safety employees and remained at 2% at 55 years for miscellaneous employees. Subsequent investment losses coupled with enhancements caused a substantial increase in employee contribution rates. PERS manages pensions and healthcare benefits for more than 1.4 million employees and has collected \$3.2 billion in employee contributions and \$5.8 billion in employer contributions. Defined benefit plans promise a specific benefit at retirement. Investment risk and portfolio management is the responsibility of the employer. In Lodi, the employees' share is 9% for public safety and 7% for miscellaneous employees, though the City of Lodi pays both. Employee contributions are usually fixed, while employer contributions usually exceed the employee contribution and vary depending on returns. The annual employer contributions include the normal cost and unfunded liability. Normal cost is what the plan costs without taking into account actuarial losses or gains. If pension fund assets fall short of the liability due to lower than expected investment returns, the result is unfunded liabilities. Administrators of pension funds spread out payments of unfunded liabilities over a period of years to smooth the impact on rates. Defined contribution plans require that a specific amount of money be set aside for the benefit of the employee. Employees accrue benefits over their work life and receive a life annuity at retirement.

Deputy City Manager Krueger reported that in 1995-96 member contributions in PERS totaled over \$1.3 billion and employer contributions were \$1.8 billion. Investments and other income of the entire PERS system was just over \$13 billion. In 2004-05, the member contribution increased to \$3.176 billion, employer contributions were \$5.8 billion, and investments and other income for the entire PERS system was \$21.9 billion. In Lodi, employer contributions have been as low as \$1.6 million in 1999-00 to as high as \$7.2 million in 2005-06. PERS investment performance is the main reason why employer rates have changed. The PERS board has stated it will use a 30-year period of time to smooth out investment gains and losses so that, in the future, there would not be dramatic reductions or increases in rates.

Mr. Krueger reported that the League of California Cities formed a task force, which has made the following recommendations:

- Use a defined benefit plan;
- Roll back and repeal plans providing benefits that are not financially sustainable;
- Offset in the pension payoff in PERS, 50% of the amount that would be received under social security;
- Cap payout for miscellaneous employees at 100% of what the employee's salary was at the time they retired and 9% for public safety employees;
- Move retirement age from 50 to 55 years for public safety employees and retain 55 years for miscellaneous employees;
- Repeal the highest one-year compensation with the highest three-years compensation for public safety employees;
- Employees should have responsibility for rates that are needed above the normal cost threshold;
- Establish resources that help smooth the volatility of the pension benefit costs;
- Restrict benefits of the disability pension provision of the public retirement system restrict benefits when a public employee can continue to work;
- Retain transferability of benefits across public sector employers;
- Minimize any disparity between current and prospective public agency employees;
- Any reductions or changes to current defined benefit plans should be considered in context with other compensation issues across all public agency employers; and
- The membership of the public employees and retirement system board should be changed to achieve a better balance of employer, employee, and public agency representatives.

Mr. Krueger noted that Lodi's contract with PERS states that part-time employees will not be enrolled in PERS. PERS has stated that part-time employees working more than 1,000 hours a year should be enrolled in PERS. The task force recommendation was that employers have flexibility in determining when part-time employees are entitled to public pension benefits.

City Manager King explained that employees have realized that if the 7% (employee's contribution that the City pays) is added to the base and employees pay their share, it moves the base up for retirement purposes, which is advantageous to them. He reported that the City pays into social security for part-time employees. The Public Agency Retirement System has a product that costs less than social security and is fully qualified to meet the City's legal obligation. In the mid-1980s, it was common for PERS contracts to exclude part-time employees. The PERS board stated that employees who work in excess of 1,000 hours a year should be part of the PERS system. Lodi's contract with PERS states that its plan excludes persons compensated on an hourly basis. He felt that the City should reaffirm the language of its contract with PERS and exclude part-time employees and that they not be enrolled in PERS when exceeding 1,000 hours. He anticipated that miscellaneous employees will want an equivalent to public safety employees 3% at 50 years, which would be 2.7% at 55 years. He mentioned that it might be beneficial to ask for a "fresh start" on the City's actuarial, as it may decrease the level at which to begin the 30-year smoothing. The PERS board stated that 90% of assets need to be maintained at all times to keep the portfolio whole, though with a longer smoothing, it is now stating that it can be dropped to 80%. PERS is setting the high end of the portfolio at 120%.

Police Chief Adams reported that last year while serving as President of the California Peace Officers Association he regularly met with the Governor, Presidents of CalChiefs and CalSheriffs, the League of California Cities, California Fire Chiefs Association, and actuaries

from PERS, and found that this issue was market driven and that the enhanced benefits contributed only a small percentage to the increase in 2000-01. If the State of California had a rate stabilization plan in place ten years ago, the situation today would not be as dire. He felt it was important that the City stay competitive so that it can continue to attract and retain employees.

Public Works Director Prima stated that the pension rates in 2004-05 were at or lower than the 1980s and into the early 1990s. He felt that this issue was not the crisis that some were making it out to be. He pointed out that dollars and percentages should be considered separately because dollars will increase over the years due to inflation, salaries, number of employees, etc. He noted that projections were not presented today and hoped that Council would take it into consideration as well.

Community Development Director Hatch stated that the competitiveness of the total benefit package is very important for recruitment and retention of employees.

Fire Chief Pretz hoped that Council would not consider any type of defined contribution program.

Mayor Hitchcock asked the City Manager to report back on actual costs related to the program.

C. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS

- Georgiana Reichelt spoke against recent immigration rallies and felt that illegal aliens should be treated as criminals. She stated that billions of dollars have been wasted trying to teach English in schools, when parents refuse to speak the language at home to their children.

D. ADJOURNMENT

No action was taken by the City Council. The meeting was adjourned at 8:32 a.m.

ATTEST:

Susan J. Blackston
City Clerk